

Oral Statement of
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Before the
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
of the
COMMITTEE ON ENERGY AND COMMERCE
UNITED STATES HOUSE OF REPRESENTATIVES

On
FCC's E-rate Plans to Assist Gulf Coast Recovery: Ensuring Effective Implementation

October 6, 2005

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to come before you today to discuss the FCC's plans for participation in Hurricane Katrina rebuilding activities and our plans to provide oversight of these activities.

FCC Use of the USF in Katrina Rebuilding Support

The FCC will use the four support mechanisms of the USF – the Schools and Libraries program (or E-rate), the High Cost program, the Low Income program and the Rural Health Care program – to provide \$211 million of assistance to the devastated areas.

On September 21, 2005 the Commission issued an Order that allows numerous filings for various forms and information under the USF support mechanisms were postponed for a period of up to 150 days. The Commission is currently drafting an additional Order to implement other elements of the FCC relief effort.

OIG Oversight of the USF Katrina Funding

I applaud the Commission's efforts to be a positive force in the post-Katrina recovery, and I am supportive of all that this agency can do to assist. However, I am mindful that in my role as Inspector general, I am responsible for ensuring that these relief efforts do not present unacceptable risks to the agency and the taxpayer's dollar. I would like to discuss my plans for oversight of the FCC's Katrina-related efforts.

The FCC's financial contribution to the recovery is via the USF. My concerns about the USF, and in particular the E-rate program, have been the subject of numerous discussions with agency management, and several audit reports and semiannual reports issued by my Office, and previous testimony before this Subcommittee. I will discuss concerns we have had about this program that may generate higher audit risks associated with the hurricane recovery efforts.

Due to materiality and our assessment of audit risk, we have focused much of our attention on the USF mechanism for funding telecommunications and information services for schools and libraries, also known as the "Schools and Libraries Program" or the "E-rate" program. The primary obstacle to our implementation of effective and independent oversight of the E-rate program has been a lack of adequate resources to conduct audits and provide audit support to investigations.

The audits and investigation performed to date indicate a high level of risk for misused funds in the E-rate program. We have specific concerns about the E-rate program that will have a direct impact the disaster assistance funding that include, but are not limited to, a lack of clarity in the program's rules being a catalyst for both inadvertent errors and deliberate waste and abuse and weaknesses in the competitive procurement requirements used to purchase E-rate goods and services.

I am concerned that the programmatic weaknesses we have found will be compounded by the confusion of overworked school and library administrators trying to rebuild shattered

information systems under less than ideal circumstances. Additionally, I fear these rule waivers or exemptions will be taken advantage of by unscrupulous E-rate service providers that federal criminal investigations have turned up time and again.

Our most significant effort to date to implement our E-rate oversight program has been our on-going work to establish a three-way contract under which the OIG and USAC can obtain audit resources to conduct USF audits. This project has been delayed, but the Chairman has recently expressed support for this three-way agreement and we are hopeful that the contract will move forward in the very near future. In the interim, we are working with USAC Internal Audit department (IAD) and a public accounting firm under contract to USAC to conduct audits E-rate beneficiaries.

Because we have focused our limited resources on the E-rate program, we have not been able to devote a great deal of attention to the other USF mechanisms. The other large USF program is the High Cost program. At the present, we are assessing risks in the High Cost program in anticipation of being able to institute an audit program in the future and will ensure our plans address any considerations brought by the Katrina relief.

The proposed Low Income disaster relief is very interesting, in that it seems to represent an entirely new use of this Fund. To the best of my knowledge, this support mechanism has not been used in the past to provide wireless handsets and free minutes of service in the past. We will include an audit in our FY 2006 Audit Plan to determine how eligibility for this help is determined and verified and measures the Commission has taken to ensure

the products provided are in the hands of the people who need the help.

The Rural Health Care program is the smallest USF program, having disbursed \$38 million since 1999. We are still assessing the requirement for oversight represented by the additional disaster relief funds.

Conclusion

The Office of Inspector General has been and remains committed to meeting our responsibility for providing effective independent oversight of the USF. My office will dedicate as much of our resources as possible to ensure that the extra measure of support provided by the Commission is utilized in a manner that best benefits the people whose lives have been so horribly uprooted by Hurricane Katrina.

Thank you. I will be happy to answer any of your questions.

SUMMARY

- The Federal Communications Commission (FCC) is using a variety of temporary rule waivers to allow Universal Service Funds (USF) to be used in support of Hurricane Katrina rebuilding efforts.
- Additionally, the FCC has formed a new Bureau of Homeland Security and is coordinating rebuilding efforts with federal, state and local entities.
- The Office of Inspector General (OIG) will provide oversight of the FCC's Katrina rebuilding assistance:
 - In the annual audits of the FCC's financial statements.
 - In audits of recipients of the USF benefits.
- Prior USF expenditures in the areas affected by the hurricane exceed \$739 million since 1998. Replacing this infrastructure is critical, and the risk of misspent funds is great.
- OIG is committed to meeting our responsibility for providing effective oversight of the USF.